# ECONOMIC LIBERALISM, ECONOMIC GOALS, AND ECONOMIC POLICY

## *Towards Utopia, Brave New World, or Hell on Earth?*

**by**

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## ECONOMIC LIBERALISM, ECONOMIC GOALS, AND ECONOMIC POLICY

### *Towards Utopia, Brave New World, or Hell on Earth?*

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For more than a decade, the world has become subjected to the economic philosophy of liberalism and the huge benefits assumed to be derived from economic freedom - within an economy and without. The great economic goal for business firms is the maximisation of profits through free competition, floating exchange rates, free trade, and free capital movements. The new "buzz" word is "globalisation". Most countries have begun, often slowly, to move in the "right" direction, and economists have begun to show the great benefits which are being reaped from such moves by the more progressive countries. Other macroeconomists are very ready to point out the shortcomings of pursuing non-progressive policies during the pre-enlightened period or in areas in which the old-fashioned "wrong" policies have been perpetuated beyond their "use-by" date. Yet there is a growing body of economists who find the new philosophy is not without its faults and who offer arguments which are completely ignored by all free market economists.[1]

During the last year or so there have been recorded several adverse economic events which, partly or wholly, have resulted from the return of economic liberalism. First of all, there is the worrying fact that the economic growth performance of the countries adhering most closely to the precepts of the liberals, including the trend towards globalisation, has been less than satisfactory. Indeed, in recent decades, despite the recent boom in the United States, many countries have experienced a lower average annual rate of growth of GDP than that recorded in the previous decade, and not all reductions in growth rates can be attributed to the end of the post-war surge in GDP.[2] The economic crises of East Asia[3] the financial crises in Russia, Brazil and other Latin America, the huge international support for capital liberalisation and the defence of it, all suggest that something is wrong with international economic relations as they have developed during the last decade and a half. How close to the brink of the abyss was the world economy in September 1998 cannot be determined but the movements of short-term capital could have produced an international monetary debacle of the late 1920s variety if the IMF's activities had not been forthcoming.[4]

Such events must lead to many more reservations within the group of economists who have become suspicious, at least, and condemnatory, at most, of the whole approach to macro-

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1 In Australia, for example, see references below.

2 The average annual growth rate of real GDP in developed countries fell from over 5 percent in the 1960s progressively to around 2.5 percent from 1989-1998. Per capita GDP also declined progressively (see World Bank, *Annual Report* and *World Development Report*, various issues, and IMF, *World Economic Outlook*, various issues.

3 On this, see Steven Radelet and Jeffry D. Sachs, "The East Asian financial crisis: diagnoses, remedies, prospects, " *Brookings Papers on Economic Activity*, 1, 1998, pp.1-90.

4 Manfred Bienefeld, "Karl Polanyi and the contradictions of the 1980s", ch. 1 in M. Mendell and D. Salee, *The Legacy of Karl Polanyi*, New York, 1991, p. 22, discusses the present international economy as the global "casino" economy, in reference to the massive international flows of "hot" money.

economics under its pretentious title of economic rationalism, an approach which mirrors the *laissez-faire* economic philosophy which was favoured by a number of leading countries during the period between 1870 and 1930. Let us consider some of the features of this latter-day economic liberalism and the attempts to steer all economies towards *full* globalisation and *fully* free internal markets with no public intervention. But first let us consider the following:

> In the 1920s "economic liberalism made a supreme bid to restore the self-regulation of the system by eliminating all interventionist policies which interfered with the freedom of markets". The catastrophic responses to this "bid" in the 1930s and 1940s exemplify Polanyi's grand theme that a fully liberalized market system is socially and politically impossible. "Self-regulating" markets cannot endure, particularly in the key areas of labour, finance, and international trade. Attempts at full deregulation give rise to unstable, speculative behaviour or else to such concentrations of income and wealth that there is a social reaction leading to reimposition of the state's latent powers of market control.[5]

This Polyani citation, written in the early 1940s, shows that economic liberalism has already been tried and was found wanting. As Polanyi predicted, some of its features have already appeared in the present-day version, such as the speculation in self-regulating capital markets, the widening of income and wealth gaps between the rich and the not-so-rich, and monopolisation being attempted in so-called competitive markets.

The world of the economic liberal (or economic rationalist) has no restrictions on economic activity whether in internal markets (goods and services, factor, or financial) or in external relations (exchange rate, trade, or financial flows). In other words, perfect globalisation prevails. Let us consider the return to this ancient economic world of the theorists and some of its implications for the national economy and its population.

The essential attribute of the free market economy is open competition and, to ensure that it exists, maximum efficiency must be targeted in all fields of economic endeavour for, only by approaching maximum efficiency, will a firm be able to compete with its rivals and attain maximum profits, the ultimate goal. No country can yet boast of a free market economy but the United States must be further down the road towards such a state than most others, with the United Kingdom attempting to emulate the United States in many respects. To move in this direction, certain institutions and practices within each country must be eliminated or experience major structural changes.

To begin with, any market limitations imposed by the central government must be lifted. In other words, all markets must be **deregulated**[6] and, thus, all restrictions placed on business firms affecting the free determination of prices must disappear to ensure that the market forces of

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5 See Lance Taylor, "Editorial: the revival of the liberal creed - the IMF and the World Bank in a globalized economy", *World Development*, vol 25, 2, 1997, p. 145, citing the ideas of Karl Polanyi expressed in his *The Great Transformation*, New York, 1944, p. 231.

6 Even if the regulations were put into place at least partly to prevent greater concentration of power among the members of the regulated industry. Note the recent controversy with regard to the deregulation of milk prices in Australia which seems to have left consumers and perhaps farmers worse off but processors and retailers better off, confirming that the regulation of milk prices acted as an effective anti-monopoly policy.

demand and supply *alone* will determine the prices of commodities, services, wages, interest rates, and real property.

What, then, of macro-economic stabilisation policy? This is the only aberration in the free market resolution of economic production and pricing and an admission that fluctuations in economic activity will still form a feature of economic activity. To maintain the economy on its true economic growth path, and to ensure there will be little or no inflation, monetary policy of the (independent) central bank alone must be used. When economic activity is thus stabilised - when inflation has been reduced to manageable proportions,[7] the economy can then experience economic growth. Even so, economic growth must not be allowed to proceed too rapidly as high rates of growth may resurrect the inflationary spectre.[8]

This approach to macro-economic problems is very simple, with only a minimum of government interference - to prevent or control inflation. But the outline of the system cannot remain there for the description so far omits any mention of institutions and practices which have become ingrained in economic affairs since the 1920s when *laissez faire* last became so realistically identifiable. Without any regard to the reasons for the setting up of such institutions and practices during the following decades, the economic liberals dismiss them all as they interfere with the working of the market mechanism, even without a discussion regarding the shortcomings of these features of the advanced economy of recent times.

First, fiscal policy must give way to monetary policy because the government budget must not only be balanced, but its size, in terms of taxes levied and expenditure undertaken, must decrease so that the free market economy can be approximated. There must be **fiscal consolidation**.

From this aspect of the "perfect" economy come certain implications for immediate change. First, reducing taxes and expenditure limits severely the power of governments to redistribute income to the poor from the very wealthy elite that *laissez faire* inevitably creates[9], and reduces the government's ability to pay pensions to the old, infirm, or otherwise needy sections of the population. It also prevents government from aiding the unemployed, whether their state is derived from physical frailty, mental instability, or just from being victims of the market mechanism. All these and other government services which form the "social safety net" must largely be "privatised" for the simple reason that a private firm, enthused by the profit motive, can provide such services more efficiently than public services which can then be downsized as well. In addition, the lack of a profit motive within public business enterprises suggests that all

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7 To what some economists call the NAIRU, the non-accelerating inflation rate of unemployment - the "natural" rate of unemployment. It must be noted that economic *stabilisation* denotes the lack of inflation - it no longer considers the extent of unemployment which is a problem for the poor. Inflation is mainly a problem for the rich, and there lies the difference. See Andrew Hacker, *Money: who has how much and why*, New York, 1997, for a comprehensive account of income inequality in the United States and its recent expansion.

8 Note the following: "On December 1, 1994, all respected United States economists shared a common conclusion. If the United States unemployment rate remained below six per cent, then inflation would surely increase. But it did not." (Anon, *Challenge,* March/April, 1997, p. 6). Such may also have been the case if the rate of economic growth exceeded (say) five per cent!

9 One has only to trace the emergence of the wealthy in the United States economy during the 1870s and 1880s to obtain evidence of this aspect of *laissez faire*.

public businesses should be privatised in order to boost efficiency and introduce the competitive spirit. There is a paucity of real evidence which proves the "assumptions" of the economic rationalists' model and its edicts in this context. [10]

In the labour market, there is a need to dispense with all the institutional factors built up since the early nineteenth century preventing the severe abuses handed out by employers to their workers at that time, to eliminate the power of unionism (collective bargaining), and to effect the dropping of the "minimum wage" legislation.[11] In every case, it is argued, there should be a contract between the employer and the individual employee which, on such a basis, would generally favour the employer.

As with labour, the financial sector must be entirely deregulated, except for the monetary policy changes in interest rates from time to time to reduce any inflationary pressures which may arise or to favour economic growth in the absence of inflationary forces or expectations.

Finally, within the external economic relations sector, the abolition of tariffs, quantitative import restrictions, embargoes, and other impediments to the working of a free trade policy must disappear. In addition, the determination of a country's exchange rate must follow the invisible hand of supply and demand. **Globalisation must become a reality**.

Given the elimination of all restrictions on market forces, the pressures of the competitive market place will produce technological progress and economic growth, largely as a result of the profit motive.

The strength of the appeal of such an economic theory is evidenced by its adoption by the International Monetary Fund (IMF), as is demonstrated in its advice to the governments of its member countries and in its prescriptions for the elimination of problems encountered by members requesting IMF aid. The OECD research staff also embraces it. But, as some argue, the members of either of these institutions need not be confronted by irate voters.[12]

For some economists, this approach to economic endeavour and policy (or a lack of it) contains the seeds of its own destruction, not only economically, but also socially and politically. Perhaps the most damning aspect of its philosophy is its complete lack of any moral, social, or political character, as the following critique will highlight. Moreover, much of the theory is based on intuition and assertion without any firm attempt to debate some of the many aspects of its nature. Let us now turn to discuss critically some of its precepts.

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10 Cf. John Quiggin, "Micro gains from micro reforms", *Economic analysis and Policy*, 1998, pp.1-16.

11 There is no need for such legislation for the market will determine wage rates. As the competitive economy enters a phase of rapid economic growth, the rise in the demand for labour will lead to increased wages over time.

12 This is disputed by Stanley Fischer, First Deputy Managing Director of the IMF, who argues that the IMF has to face its members who can be as difficult as any national voters. See his "Reforming world finance", *IMF Survey*, 19 October, 1998, p.IV, a reprint of a paper published by *The Economist*.

*Fiscal Considerations*

First, there is the position of fiscal policy - or the use of an unbalanced budget to steer the economy through inflationary and high unemployment periods. Experience has shown that fiscal policy may not be as effective as monetary policy in curbing inflationary pressures within an economy because of the many political and social factors which tend to prevent the use of tax and expenditure changes to their full potential. This is also certainly the case where much of the unemployment that exists in countries today is structural in nature. But if there exists a high and rising level of *cyclical* unemployment, accompanied by a slowing of economic growth, there may be a case for using fiscal policy to "stabilise" (in the old sense) the economy, especially if the possibility of inflation is low. Japan's large government deficits in 1998 to trigger off economic recovery and to reduce unemployment, sanctioned by the IMF, tends to fly in the face of "rationalist" thought. But it is abundantly clear that interest rate policy by itself is incapable of helping a country out of a situation similar to that which confronted Japan, because official interest rates cannot be lowered enough to stimulate an economy in the throes of a serious recession. Moreover, if fiscal consolidation (a pet phrase of the IMF) occurs and budgets comprise much lower revenue and expenditure than at present (as in the 1920s) fiscal policy will not be very useful. Movements towards *laissez-faire* tend to burn the bridges as they advance, there is no turning back, except by means of a long and difficult road.[13]

A *laissez-faire* government would aim eventually to reduce the size of its budget and hive off many of its acquired functions. At first, however, it would run budget surpluses to reduce the public debt substantially and thus allow more and cheaper funds to be available for private sector investment.[14] Then, the theory goes, the classical edict of a balanced budget should be reapplied.

Nevertheless, that a budget deficit is acceptable under certain conditions has recently been accepted by the IMF, as its Stanley Fischer says (with further reference to Japan):

> As growth in Korea, Thailand, and Indonesia has slowed, the agreed fiscal deficit has increased; each country is running a sizeable deficit. More fiscal expansion, *including additional social spending for the poor, would now make sense.*[15]

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13 Nevertheless, one must agree that the expansion of public sector budget deficits in many countries during the last two decades did not demonstrate good budgetary discipline.

14 But the recent opening up of world capital markets tends to reduce the strength of this argument. Funds for private investment can quite easily be obtained from abroad at any time often at lower interest cost. Thus there may be few "crowding out" effects from public sector budget deficits.

15 *Loc. cit.*, p. I, Later (p. IV), he notes "Rapid action to sort out its banks, and *further fiscal stimulus*, would go a long way to help Japan and the rest of Asia recover."

Then there is the old distinction between the current and the capital items in the budget which is not taken into account by the economic liberals. As Vickrey argues:

> A capital budget, with a vast expansion of government capital outlays on roads, bridges, research, education, and the like, financed by borrowing, might go a long way toward improving the unemployment situation.[16]

Without such capital works, which benefit future taxpayers for many years (and thus an argument could be made for their financing out of loan funds) private economic activity would be restrained. Or should we privatise all these avenues of capital expenditure?

To attempt to approach the ideals of the economic rationalists, the public service, bloated in almost every country, must be reduced by "down-sizing" (another "buzz" word created by the latter-day model builders). Furthermore, public enterprises, grossly inefficient by private company standards, must all be "privatised". Little, if any, proof is provided for either of these assertions, other that the stock "Everyone knows this is so!" On the contrary, however, in some instances the opposite may sometimes be the case. Furthermore, profits from public business enterprises (and some do record annual profits - some very large profits!) normally are paid into the government's consolidated revenue, for the benefit of all taxpayers. Only part of the profits of private sector companies enter government revenue (especially from those that find useful tax havens), much more is acquired by private shareholders, a high proportion of whom are found in the wealthy sector or by foreign investors who can avoid paying any tax in the host country. It seems that privatisation generally ends in the redistribution of income from taxpayers to the rich (and these two sets of people are somewhat exclusive in most countries) or to foreign investors.[17]

Another aspect of government expenditure involves politically-sensitive welfare payments to the poor. How do the economic rationalists consider this growing body of people?

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16 William Vickrey, "Today's task for economists," *The American Economic Review*, 83, 1, March 1993, p. 3

17 Recent evidence in Australia suggests that in that country no rich person need pay any tax and that some (perhaps many) do not! In addition, recent privatisation of some Australian public business enterprises has led to a redistribution of income from Australian taxpayers to the United States owners who have acquired some of the private firms recently created from public ownership, especially in Victoria.

> Advocates of more dramatic change argue that today's social programmes tend to aggravate rather than attenuate the *friction* between *societal cohesion and economic flexibility* . Modest reforms, they say, will simply continue to invite dependency while *fiscal retrenchment* reduces the resources available to that end. A more promising approach calls instead for *efficient social insurance schemes* that align individual costs and benefits. Breaking with certain welfare state traditions is viewed as *probably* the most effective way of introducing the *supple and adaptable systems better suited to providing a sense of security in a turbulent flexible economy.*[18]

This model rejects all the reasons for redistributing income via the tax-social service system from the rich (those favoured by the economic rationalist framework) to the poor (those penalised by this system). No public aid to the unfortunates in society through old age, invalid, and other pensions, health insurance, or for unemployment relief transferred from the lucky, the employed, and the rich members of society, is tolerated. It will be necessary for all individuals to contribute to insurance schemes according to their status and their incomes. Where then do such people acquire "a sense of security in a turbulent, flexible economy", created by the free market economists. **There is no compassion in such an approach**. Public policy must contain more than the unfeeling measures aiming to produce greater efficiency in the economy, irrespective of the effects of such policies in the short-run for some, at the very least, and in the long run for the lower achievers, whatever their circumstances. It is true that, in many countries, the public authorities have, for political and other reasons, become very lax in the extension of social service benefits and that some retrenchment should occur, but that does not mean that a very callous policy of public non-involvement should be introduced, all to ensure the emasculation of fiscal policy, and the further maximisation of profits for the benefit of the rich. Alternatively, there could be a parallel approach, as in some countries, of private superannuation and public pensions, which has survived satisfactorily over the years and could continue. *Vale* the welfare state!

The new macroeconomic approach to public policy ignores the initial reasons for the establishment of many of the social, medical, and educational services, such as the necessity to provide essential services which, at the time, were beyond the capacity of private enterprise to offer at reasonable costs to the population, or services which could be provided only equitably by the public sector - services involving a certain degree of cross-subsidisation, or equal treatment to a scattered population. As examples, let us suggest the postal service, telephone, railways, and the provision of water supply, electricity, and sewerage, all of which required large initial investment expenditures. In these cases, national philosophies differ from country to country in terms of equity and efficiency. In addition, privatisation undoubtedly will eliminate all the benefits associated with those public services as the new privatised firms substitute profit maximization and maximum efficiency for the provision of a high degree of public service.

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18 Anon., "Pension policies and the aged", OECD *Observer*, April/May 1997. All statements, similar to this one, are couched in ambiguous and flowery language. The statement: "align individual costs and benefits" means that the rich can pay higher premiums and receive greater benefits while the poor, unable to maintain high premiums, will receive possibly below the poverty line benefits. What "supple and adaptable systems" would probably (not certainly) provide a "sense of security in a *turbulent flexible economy*"? If the model posed is so turbulent why change from the present one?

Finally, on government economic policies to be downgraded, one of the major weaknesses of the new approach is the accent placed on the balanced, albeit small, government budget which, of course, consigns Keynesian economics to oblivion. One of the so-called attributes of the *laissez-faire* economy is its penchant for the generation of trade (or business) cycles. In such an economy, the possibilities for cycles are greatly magnified, especially as the ability of funds to flow rapidly from one country to another expands in the hands of speculators and foreign investors. Given the current situation in the world economy, if deflationary forces begin to predominate and accelerate, as in the late 1920s, it has to be monetary policy which will bear the brunt of stabilisation once again. But stabilisation in our brave new world is defined as reducing inflation to a manageable level. There is no aspect of economic liberalism devoted to the countering of deflationary forces except monetary policy - reducing rates of interest. But interest rates may already be low', say below 5 per cent, and, in many countries, they may be so low that a "liquidity trap" (if we can use that concept in our present non-Keynesian world) may have been sprung. Moreover, given the long lag often associated with interest rate policy, the central bank may not be aware of the presence of such a trap for several months.

The emasculation of fiscal policy means that the Keynesian answers to depression and cyclical unemployment cannot be activated as it would be necessary either to raise huge taxes to finance the required expenditure or enormous loans would have to be considered - and increasing the public debt is anathema to the economic liberal. The fear of deflation, dispelled over the decades, could strengthen as the macroeconomic policy specialists whittle away all the measures available to the government to counter it by fiscal means. Thus deflation could worsen into depression which would have to run its course as in the early 1930s. Is this still the answer to depression - let it solve itself! There will be no trade-off between unemployment and inflation. To attack inflation is essential to stop the eroding of the value of the assets and incomes of the favoured. If all countries achieve the ultimate goal of a free domestic market without impediments, and the free flow of commodities, capital and people, globalisation will be achieved. Can we then relax our drive for maximisation of profits and consider other goals of human living, such as increasing our leisure, or must this drive continue into the distant future! Why has the drive for maximum profits and higher growth rates become so crucial in the 1990s, a decade that people in the 1960s looked forward to in terms of less work and more leisure?

*The Labour Market*

One of the important questions arising from the above concerns the place of unemployment in the new macro-economic stabilization scheme. Should not its elimination appear somewhere as a goal, even if as a minor one?[19]

Unfortunately not! It is argued that unemployment today is primarily a "structural" problem and thus expansion of economic activity will fail to reduce it in any substantial way. As some sections of the work force are flexible and mobile, some unemployment will decline when such workers move into other regions or into other occupations where the demand for labour is still high. Such a process should be aided by the movement of relative wage rates, raising the

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19 As noted in footnote 5 above, the **natural rate of unemployment** is the percentage of the total workforce unemployed **for a stable inflation rate**. In other words, only inflation can denote economic instability.

attraction of the area with high demand, given no minimum award rates or strong union power. If the market is highly flexible it should clear itself. If it is not flexible and/or if workers are not highly mobile from region to region or from one occupation to another, then it will be necessary, by "micro-economic reform", "down-sizing", "wages contracts", or early retirement, to rectify the situation so long as the government's unemployment relief does not entice workers to become or remain unemployed. If unemployment occurs through international competition or through technological displacement, some retraining must be undertaken, so that skilled workers can switch their efforts to other specialties in demand or so that the unskilled may gain some skills. With the accent among free marketeers on "globalisation", it is proper that international competition forces wage rates down unimpeded by a "high" minimum average wage rate creating a working poor to join those on a very "low" unemployment relief and old age pensioners on reduced incomes from the public sector.[20] Then, if there is no minimum wage and no unemployment benefits, the unemployed must obtain a job at any wage rate - the "working poor" - as in the United States and elsewhere at the present time.

A fully employed work force need not (nor should it) be a goal of stabilization policy, for little unemployment is caused by poor economic growth. Not even in the European climate of perennial growth rates of below three per cent during the 1980s and 1990s, has cyclical unemployment often been recognized as a problem by the IMF or the free marketeers.[21]

While an unemployment stabilisation policy is unrealistic in the present macro-economic thought, there are actions which are necessary to reduce unemployment (of a structural nature). These include a forced decline in union power, a fall in or elimination of minimum wages, and the deregulation of governmental legislation controlling the hiring and firing of labour by employers. In other words, the call is for *greater labour market flexibility*, which forces workers out of their usual occupations (if the demand for their labour falls) into others or forces workers to move from one locality to another, presumably at the workers' own expense, which may be substantial. Such may also be the case of self-financed worker retraining. Such attitudes ensure that workers become uncertain of their future employment opportunities and will work harder for longer hours with lower pay and suffer other adverse working conditions in silence. Already, such attitudes have increased the length of the average working week in many countries.[22] Yet, one could be pardoned for believing that, despite all the "rewards" obtained for workers over the

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20 Note that the IMF "expressed concern at the economic and social costs of high levels of structural unemployment, particularly in Europe. Governments were urged to reduce labour market "distortions" that contributed to high unemployment (such as reducing employers' social insurance contributions for the young and low-skilled), lessen the impact of minimum wages for young workers, increase wage flexibility by reducing or eliminating indexation provisions, and improve education and training." (Annual Report, IMF, 1996, p. 23). Note the relative importance of training!

21 The IMF, in its 1994 Annual Report, pp. 16-17, noted: "...a failure ...(in 1993-94)... to reduce unemployment to acceptable levels as rapidly **as would be compatible with inflation objectives** would not only involve large economic and human costs, but would also threaten the social fabric, erode the credibility of government policies, and jeopardize the achievement of medium-term budgetary and growth objectives. **Rigidities in the labour market were a major cause of persistently high unemployment and had contributed to a marked ratcheting of structural unemployment during the preceding two decades. Therefore, comprehensive labour market reforms were needed to reduce significantly the structural component of high unemployment.**"

22 In Australia, for example, the average weekly hours worked rose by 21 per cent from 1987 to 1998, while overtime declined slightly.

last one hundred years, another era of the employer, the capitalist, has arrived, delivered by economists via their economic models which promise Utopia but which so far have produced little for the working populace whose economic welfare will be improved only if a sizeable shortage of labour becomes evident.

Moreover, the actual unemployment situation differs from the conditions assumed in this economic model. Such assumptions are denoted as realities by the modern macroeconomists. **First,** in its strictest form, there is the assumption, explicit or implied, of a high degree of homogeneity within the workforce. One displaced unit of labour can easily fit into a different occupation with a little training. **Second,** a redundant worker can always be trained in an occupation where there is excess demand for labour. **Third**, job preferences of a worker are irrelevant. Each worker will seek employment wherever it is offered and each one will be just as efficient in any one occupation as in any other. **Fourth**, despite the disappearance of many benefits obtained over previous decades, each worker will perform his/her duties to the utmost, work harder, longer hours, and for lower payment if such is offered. Such pay depends on the forces of demand and supply and nothing else. Workers are not more efficient in one occupation than they are in any other. It is not recognised that each worker has likes and dislikes regarding employment. **Fifth**, the idea that leisure plays a part in the desires of workers, to the extent that each unit must "choose" between an extra hour of work or an extra hour of leisure, is anathema to this approach. There is no choice; the worker will do what is required by the firm. **Sixth**, there is no recognition of the fact that the firm's attitudes to its labour force may affect the willingness of workers to perform a little harder.[23] **Seventh**, there is the assumption (often not stipulated) that, if labour agrees to take reductions in living standards, then economic growth will be greater and, in the future, labour will be well-rewarded by a higher demand for workers and higher wages. There is no indication of when this promise will be honoured in this highly competitive and uncertain economic environment! But in the meantime until the demand for labour exceeds its supply, a high proportion of the returns from higher growth rates will accrue to the owners of capital. **Finally**, in this context, given that a firm reaches the ultimate degree of competitiveness through attaining the highest degree of efficiency, it will enjoy a long life offering its shareholders the maximum amount of dividends.

A few comments on these assumptions and assertions seem appropriate. By the end of a training or learning period the employment situation in the occupation for which a redundant worker received training may have changed. There may be no opening for that worker who, according to the projected pattern, must be retrained again. Workers *do* differ in their likes and dislikes; they are not homogeneous in nature. One may enjoy an "indoor" occupation which may be abhorred by another. There is a lack of recognition of the attitudes of workers and thus no recognition of the notion that square pegs cannot be fitted into round holes, at least without a change in efficiency. Maximum efficiency is possible only if all workers are happy with their positions and this will not happen if there is a threat of downsizing hanging over them. No worker can give, or would be willing to give, the type of devotion to a job in which s/he has no interest. Going even

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23 This point was stressed by Robert Reich, U.S. Secretary of Labor, in an interview on "Frontline", published as "Has Downsizing Gone Too Far?", *Challenge*, Vol. 39, July/August, 1996, p. 10. For a comprehensive argument concerning the effects of downsizing on a firm's staff, see Ronald Ayling, *The Downsizing of America*, New York, 1997, pp.94-97. He argues that a firm suffering negative effects should develop trust, redevelop the Company family, and give its workers back their pride (pp.98-101).

further, there are huge ranges of physical, mental, and attitudinal differences among units of labour which determine the great heterogeneity of the workforce. Finally, there is also the argument that economic growth could be enhanced if firms improved their workers' living standards and working conditions, and paid "high" wages, for a contented work force will work harder voluntarily and thereby be more efficient,[24] a factor recognised in the nineteenth century by Robert Owen in his labour experiment at New Lanark.

The so-called 'facts' are no more than economic assumptions or assertions which are divorced from reality and ensure that the Utopian nature of the highly efficient free market economy cannot even be approximated. What then is the true outcome of this drive for economic growth through the greater efficiency of labour? Certainly not a definite improvement in the working conditions of the bulk of the workforce, members of which often must work harder over longer hours at lower rates of pay. Gone is the idea that an advanced economy has already reached a standard of living under which the population can accept more leisure and enjoy security of employment. In the free market economy, only the very efficient can enjoy a certain degree of tenure.[25]

The big question surrounding economic rationalism is for what purpose? One answer seems to be for the greater enrichment of the wealthy. It is true that skilled workers (with appropriate skills) may also find their emoluments increasing over time, but their leisure will not, nor will their sense of security in employment. They may become redundant at any time depending on the attitudes of employers.

There is an implicit assumption in the theory that the redundant worker must undertake retraining under his/her own initiative. There appears to be no notion, as part of rationalist economics, that employers should finance the additional education they require of potential employees, especially through on-the-job training and apprenticeships. In many cases, such training could be the most effective method of obtaining appropriate workers. The theory appears to assume that employers should have at their disposal a labour pool already trained for their benefit![26]

On the other hand, however, employers who are willing to participate actively in the retraining of their workers in conjunction with educational authorities will ensure that their new workers will be tailored to their needs and that their participation will increase the firm's own efficiency. Moreover, there must be a realization among top management that, as Robert Reich noted in 1996:

> What's the one competitive resource that no other company can easily replicate? What's going to give you as a CEO a long-term competitive advantage? .... It's your workers. It's their dedication, their loyalty, their skill, their insight, their capacity to work together. This is your competitive advantage. And if you don't know it, you are in trouble.[27]

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24 See Morris Altman, "A high-wage path to economic growth and development", *Challenge*, vol. 47, January/February 1998, p. 92.

25 There appears no evidence to suggest that "a rising tide lifts all boats".

26 There are numerous instances, however, of firms about to downsize some of their workers ensuring that these workers are relocated generally at the firm's own expense. But this is not as widespread as it should be.

27 *Loc.cit.*

This opinion tends to conflict with the views of the free market economists. In other words, downsizing and the engagement of new labour with skills obtained from retraining outside the company is not enough. A company should recognise that its major asset is its work force.

In contrast, it has been noted that median wages in the United States had fallen since the late 1970s, bottoming out in the mid-1990s and, while unemployment has fallen, it has not prevented the decline in living standards in the bottom 40 per cent of the working population, nor has it led to greater security in employment. The gainers have been the high and very high income earners.[28] The same trends appear in other countries.

Finally, there must be recognition of the fact that the work force is more than a cost to production but is an asset in which a company should invest by giving its workers more skills, gain their loyalty, and make them feel important members of the company, not, find ways of cutting their wages and benefits or by introducing downsizing.

*Liberalisation of Capital Markets*

Since the 1970s many countries have liberalised their capital markets, deregulated the sector and eliminated all impediments to the inflow and outflow of investible funds, both foreign direct investment and portfolio capital, long- and short-term. Deregulation of the banking sector in an endeavour to increase efficiency by raising the likelihood of greater competition has, in some instances, including Australia, produced the opposite effects, especially among the major players. While there is some evidence of competition for home loans on the one hand, on the other, each of the major banks appears to be able to raise the fees it charges its customers without fear of a decline in its popularity because it knows its rivals will follow suit. Moreover, whatever competition does exist within the Australian banking sector, there are endeavours for the "big four" to be reduced to perhaps two. This, of course, is the ultimate of competition - a higher degree of monopolisation.

Externally, globalisation of capital markets demands openness, the ability of capital owners to enter any foreign capital market and withdraw from that market at will. The benefits can be greater profits for the capital owners and more funds to invest within the host country. While no one would disagree with this statement with respect to foreign direct investment or long-term portfolio investment, it appears from the evidence that it is the short-term portfolio capital, the world's "hot money", which few countries would welcome because of its potentially devastating effects, such as in East Asia in the last few years. In its most iniquitous form, the United States "hedge" funds, hot money has led to a desire of many countries to find a method of restricting this and other types of speculative activity. The shortcomings of this aspect of globalisation has been recognised even by the IMF when referring to the Mexican tragedy of 1994 with respect to capital inflow:

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28 Also see, *inter alia*, Andrew Hacker, *op.cit.* who states that the richest 20 percent of the US population has a greater share of the nation's income than it did twenty years ago and that all other segments of the population have smaller shares. In addition, J. Bernstein and L. Mishel, "Have wages turned the cover?" *Challenge*, vol.40 1997, no.4, pp.6-14, show that in the United States median weekly earnings followed a declining trend after 1989.

> ...it does appear that private financial markets may have a tendency to react too late to prevent a costly adjustment, and then to overreact when a country is beset by problems that turn into a foreign exchange crisis and related economic difficulties and when the full extent of these problems becomes apparent.[29]

Finally, the memories of some economists must be short for it was the adverse flows of "hot" money that had such a devastating effect on financial markets and exchange rates at the end of the 1920s, the last time the world embraced deregulated financial markets and unimpeded capital flows.

*Recent Events*

The recent trends in the world economy have brought up two changes in economic policy which indicate that something is wrong with the perfectly free market. First, there is the beginning of the resurrection of fiscal policy with a deficit budget being considered as a necessary step in the recoveries of the Japanese and other East Asian economies from their individual disasters, to a large extent brought about by the movements of short term funds by the highly speculative concerns. Second, there has been a recognition within Europe that the old definition of economic "stabilisation" should be resurrected when several governments, including those of France and Germany, virtually demanded that the new European Central Bank gives consideration to the state of the labour market in its deliberations on stabilisation. They also express the desire that the individual member states of the EU have the right to use fiscal policy to counter rising unemployment. Unemployment policy may be making a comeback in order to avoid extreme social conflict.

*Other Questions*

First, let us consider the question of *efficiency.* Downsizing the workforce of a firm and making the remaining workers achieve the same output is increasing efficiency. It also extends the work of its labour force, increasing its working hours and reducing its living standards as its leisure (that unacceptable word in rationalist thought) is reduced. In addition, one must question the increased efficiency arising out of downsizing. In terms of the economy as a whole, it is necessary to consider the sacked workers as well. If these augment the structurally unemployed, the economy is worse off because of the addition to the unused resources and, even though the downsizing firm may increase its output per unit labour ratio, there may be no increase in the ratio for the economy as a whole.

In the efficiency argument, economists presuppose a high degree of labour homogeneity. If all units of labour work to their full potential and if each labour unit is willing to and capable of producing the maximum possible output all the time, then the firm can maximise its productive efficiency. But the workforce is heterogeneous.

This leads to another important feature of competition. Unless all firms in an industry are equally efficient and equally profitable, then competition will inevitably lead to reductions in the number

29 *World Economic Outlook,* October 1997, p. 15.

of firms in an industry and monopolisation, as the more efficient and more profitable firms take-over their less efficient and less profitable rivals. Such was the case in certain industries in the United States a century ago, and there is no reason why some industries, such as the Australian banking sector and several other industries, should not proceed in the same way in the near future.

Unless the present approach, when it is implemented fully in most advanced countries, comes up with increasing per capita incomes for all, a backlash by labour may eventuate. Already there have been social and economic problems in several countries, including France and Germany, which do not portend a favourable future for any government implementing restrictive labour policies.

One can also question where economic liberalism is heading. Some outcomes are evident: the rich get richer, the poor miss out, in terms of both individuals and countries. Capital grows fatter while labour becomes leaner, and there is no mechanism for redistribution of income from rich to poor: that would upset the whole basis of the new economics. Some would question why we should work towards faster economic growth when it favours only a section of the population. Where is the proof that, as economic growth occurs, the poor will experience higher living standards? That could be the greatest problem with which the world will be confronted for the foreseeable future. It is noticeable that the average annual growth in real GDP over a decade from 1980 has in most countries been lower than in previous decades of presumably highly inefficient production with too many workers in employment. The growth results for the 1990s so far suggest that in the 1990s most of the advanced countries may have grown more slowly than in any other decade since the 1950s, despite the globalisation, increased competition, more open trade and free capital movements, that have occurred.[30]

Let us finish with a timely warning from Manfred Bienefeld:

> The dream of a leisure society in which material affluence allows people to turn more and more of their attention to family, to culture and to a renewed respect for nature and conservation, has been gradually displaced by a neoconservative nightmare in which the best we can hope for is a world in which alienated individuals "live to work" rather than "work to live"; a world in which people derive more than ever their identities, their sense of self and their sense of social worth through the impersonal and increasingly volatile market; a world in which family and community ties are often regarded as anachronistic, sentimental impediments to efficiency that "we" can no longer afford in the face of the challenge of international competition.[31]

and another from Robert Heilbroner:

> Government is always on the defensive in contemporary economics and markets are always, all things considered, on the good side. Of course, economists know there are monopolies and trusts and all of that, but, by and large, markets get a favorable reading and

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30 See f.n. 2above.

31 *Loc. cit.*, p. 4.

government gets an unfavorable reading. So they call them free. But without the Government, the market as a system would not last two minutes.[32]

32 Robert Heilbroner, "Interview: The end of the worldly philosophy", *Challenge*, vol. 42, May/June 1999, p.62.

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